MOTILAL OSWAL FINANCIAL SERVICES

20 June 2024

Update | Sector: Specialty Chemicals

Alkyl Amines

BSE SENSEX	S&P CNX
77,479	23,567

CMP: INR2,104 **TP: INR2,010 (-4%)** **Neutral**

R&D, capacity expansion and new products to remain in focus

- **AACL focuses on product innovation, waste reduction, and environmental impact, with plans to triple its R&D team and implement a new by-product isolation process in FY25. The company has increased R&D expenses, from 0.43% of revenue in FY19 to 0.65% in FY24 (INR93m), to strengthen its leadership in amines. The total R&D expenditure has increased at a CAGR of 20% in the past 5 years.**
- **AACL has expanded its ethylamine capacity by 35ktpa (~18% of the total capacity) in Kurkumbh, Maharashtra, with a capex of INR4b and repurposed the old plant to boost methylamine capacity. It aims to diversify its product portfolio as well. There has been pricing pressure amid increased acetonitrile imports from China and, hence, AACL has applied for anti-dumping duty (ADD). In order to beat competition, AACL is working to enhance product quality and production efficiencies.**
- **AACL increased its aliphatic amines capacity by ~30% in FY24 to ~200ktpa and is introducing new specialty products to enhance margin amid demand challenges. We estimate a ~22% revenue CAGR and a 40% EPS CAGR during FY24-26. Downside risks to our estimates stem from rising competition and raw material price fluctuations. The stock trades at 36.9x FY26E EPS and 24x FY26E EV/EBITDA. We maintain a Neutral rating with a TP of INR2,010.**

R&D at the fore

- AACL has continuously increased its R&D expenses, which has helped the company to become a domestic leader in the world of amines. It increased its R&D expenses as a percentage of revenue from 0.43% in FY19 to 0.65% in FY24. Total R&D expenditure in FY24 was INR93m, with capex of INR15m (INR2m in FY19) and revenue expenditure of INR78m (INR35m in FY19).
- The company operates dedicated R&D centers focusing on developing products and improving existing ones and striving to achieve cost efficiencies. R&D revenue and capital investments are also utilized to minimize waste in terms of liquid effluents and residues. AACL, in FY24, spent 0.5% of its total R&D expenses on reducing the environmental and social impact of the products that it manufactures.
- The R&D team has developed a process to isolate valuable by-products from the waste stream of one of the existing products. It is likely to be implemented in FY25. Pilot trials are going on for two complex specialty products that the team has developed with backward integration (likely to start commercial production in FY26). The company also plans to triple the size of its R&D team in the foreseeable future.

Expect AACL to navigate through multiple challenges

- AACL has expanded its capacity of ethylamine at Kurkumbh by setting up a new plant with a capacity ~35ktpa in FY24 in order to meet the growing demand with a capex outlay of INR4b. The old ethylamine plant would, therefore, be now utilized to manufacture Methylamines, which would, in turn, enhance the capacity of the product. AACL is also adding new products and investing in the upgradation of the existing capacities.

Alkyl Amines Chemicals Limited

Stock Info

Bloomberg	AACL IN
Equity Shares (m)	51
M.Cap.(INRb)/(USDb)	107.6 / 1.3
52-Week Range (INR)	2751 / 1805
1, 6, 12 Rel. Per (%)	-2/-19/-47
12M Avg Val (INR M)	159
Free float (%)	28.0

Financials Snapshot (INR b)

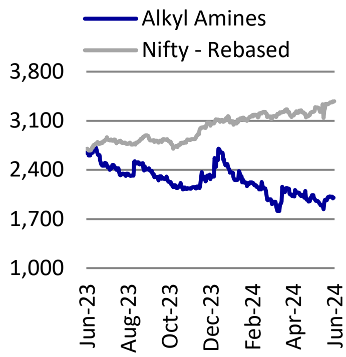
Y/E March	FY24	FY25E	FY26E
Sales	14.4	17.3	21.6
EBITDA	2.5	3.2	4.4
PAT	1.5	2.0	2.9
EPS (INR)	29.1	39.4	57.4
EPS Gr. (%)	-34.9	35.5	45.6
BV/Sh.(INR)	247.7	273.6	311.2
Ratios			
Net D:E	-0.0	-0.1	-0.1
RoE (%)	12.2	15.1	19.6
RoCE (%)	11.5	14.6	18.9
Payout (%)	34.4	34.4	34.4
Valuations			
P/E (x)	72.9	53.8	36.9
P/BV (x)	8.6	7.7	6.8
EV/EBITDA (x)	43.1	33.5	24.0
Div. Yield (%)	0.5	0.6	0.9
FCF Yield (%)	1.4	1.4	1.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	72.0	72.0	72.0
DII	1.1	1.1	1.1
FII	3.0	2.9	2.8
Others	23.9	24.0	24.1

FII Includes depository receipts

Stock performance (one-year)



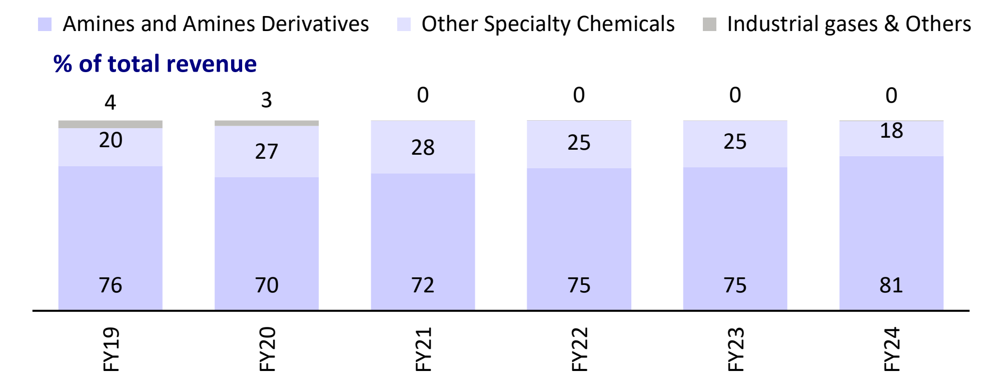
Aman Chowdhary- Research Analyst (Aman.Chowdhary@MotilalOswal.com)

- There are a range of products, today, that contribute 15-20% each to total revenue of AACL. The management is expanding its product portfolio to diversify its offerings and reduce dependency on a single product to 10%. That said, the management also targets to have a 5-10% contribution to revenue from new products every year, which it has not been able to achieve so far.
- There has been pricing pressure in some of the products of the company for quite some time now and the management expects it to continue, although prices of some products have stabilized now. Due to an increase in acrylonitrile production in China, dumping of low-priced imports of acetonitrile continues to increase, resulting in a reduction in its sales and creating margin pressures.
- AACL has applied for ADD for two of its products Acetonitrile (ACN) and Mono Iso Propyl Alcohol (MIPA), which is expected by end-FY25. All derivatives and specialty chemicals that AACL is getting into have Chinese competitors, but the management is confident of navigating through this challenge by focusing on better quality and improving production efficiencies.

Valuation and view

- AACL has boosted its aliphatic amines capacity by ~30% in FY24. The total capacity stands at ~200ktpa (including derivatives and specialty chemicals). Additionally, AACL is venturing into new specialty products that are likely to improve its margins amid robust demand (near-term headwinds persist) for amine derivatives and specialties.
- Over FY24-26, we estimate a ~22% revenue CAGR and a 40% EPS CAGR (due to a lower base in FY24). The key risk to our outlook is high competition (domestic and imports, mainly from China), leading to limited pricing power. Commodity nature of some of the products could also make AACL susceptible to raw material price fluctuations. Upside risk could be implementation of ADD.
- The stock is trading at 36.9x FY26E EPS and 24x FY26E EV/EBITDA. We reiterate our Neutral rating on AACL with a TP of INR2,010, based on 35x FY26E EPS.

Exhibit 1: Amines and Amines Derivatives contributed 81% to total revenue in FY24 (%)



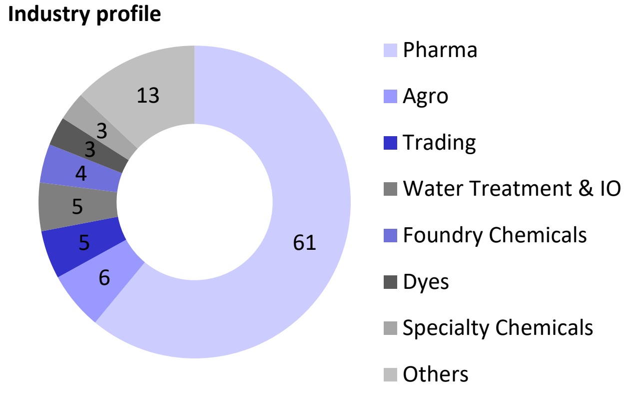
Source: Company, MOFSL

Exhibit 2: Specialty Chemicals hit by pricing pressure in Acetonitrile in FY24

Particulars	Products/Services sold by the entity (INR b)		% of total products/ services sold by the entity	
	FY23	FY24	FY23	FY24
Aliphatic Amines	7.9	6.7	47	47
Amine Derivatives	4.9	4.9	29	34
Specialty Chemicals / Amines	4.0	2.7	24	19
Total	**16.8**	**14.4**	**100**	**100**

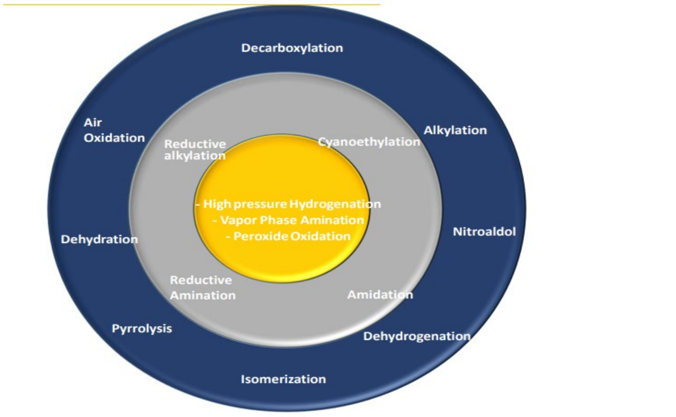
Source: Company, MOFSL

Exhibit 3: Agro and pharma are the major end user industries for AACL (%)



as of FY20 but mix hasn't changed much

Exhibit 4: Technical expertise of AACL



Source: Company, MOFSL

Exhibit 5: Diversified product portfolio of the company

Aliphatic Amines

- Methylamines
- Ethylamines
- N-Propylamines
- Isopropylamines
- N-Butylamines
- Cyclohexylamines
- Ethylhexylamines
- Furfurylamine

Amines Derivatives

- Dimethylamine Hydrochloride (DMAHCL)
- Diethylamine Hydrochloride (DEAHCL)
- Triethylamine Hydrochloride (TEAHCL)
- 3-Ethoxyl Proplyamine (ETOPA)
- 3-(Methylaminopropyl)amine (MAPA)
- Dimethyl Amino Propylamine (DMAPA)
- 3-2(-Ethylhexyloxy)Propylamine (2EHOPA)
- N-Methylbenzylamine (NMBA)
- N,N-Diisopropylethylamine (DIPEA)
- Diethylhydroxylamine (DEHA)
- Diethyl Toluamide (DEET)
- Diethyl Phenyl Acetamide (DEPA)
- Ethyl methyl amine (EMA)
- Dimethyl isopropylamine (DMIPA)
- N,N-Bis-(3-aminopropyl)-methylamine (MIBPA)

Specialty Chemicals

- Acetonitrile
- 1,8-Diazabicyclo[5.4.0]undec-7-ene (DBU)
- Diethylketone (DEK)/3-Pentanone
- Alchan 100
- Alchan 300
- 2-Aminoethoxyethanol (DGA)
- 2-Ethoxyethylamine (EOEA)
- Dimethyl Propylene Urea (DMPU)
- Tetramethyl ethylenediamine (TMEDA)
- Monomethylamine 25% in MEOH
- Monomethylamine 30% in MEOH
- Dimethylaminopropionitrile (DMAPN)
- N-Benzylethanolamine (NBEA)
- Morpholine
- 1,5-Diazabicyclo[4.3.0]non-5-ene (DBN)

Source: Company, MOFSL

Exhibit 6: AACL has significantly increased its focus on R&D expenses

R&D Expenditure (INR m)	FY19	FY20	FY21	FY22	FY23	FY24
Capital Expenditure	2	2	-	0	9	15
Revenue Expenditure	35	41	50	57	67	78
Total Expenditure	**37**	**43**	**50**	**57**	**76**	**93**
Total R&D expenditure as % of total turnover	0.43	0.44	0.40	0.37	0.45	0.65

Source: Company, MOFSL

Exhibit 7: R&D expenses and capex in specific technologies to total R&D and capex

% R&D and capex investments to total R&D and capex investments	FY23 (%)	FY24 (%)	Improvements in environmental and social impacts
R&D	0.4	0.5	All R&D revenue and capital investments are focused on minimizing waste in terms of liquid effluent and residues by reviewing the existing processes and process development and improvement for new products and the implementation of optimized processes in production.
Capex	0.7	1.3	Installation of reverse osmosis and multi effect evaporator at Kurkumbh and Dahej plants. All the three plants shall have zero liquid discharge system installed next year. AACL has installed solar power plants at Bhoom, Osmanabad, and at Manwath, Parbhani in Maharashtra.

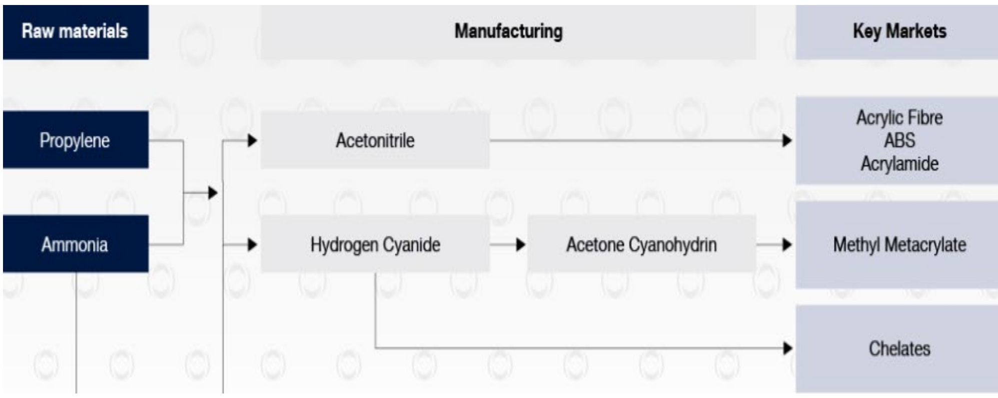
Source: Company, MOFSL

Exhibit 8: Cash conversion cycle at 143 days in FY24

Cash conversion cycle (year-end basis)	FY19	FY20	FY21	FY22	FY23	FY24
Days						
Inventory	46	31	36	39	40	44
Debtor	66	60	67	66	56	56
Creditor	56	27	53	54	41	44
Cash conversion cycle	**168**	**119**	**155**	**159**	**137**	**143**

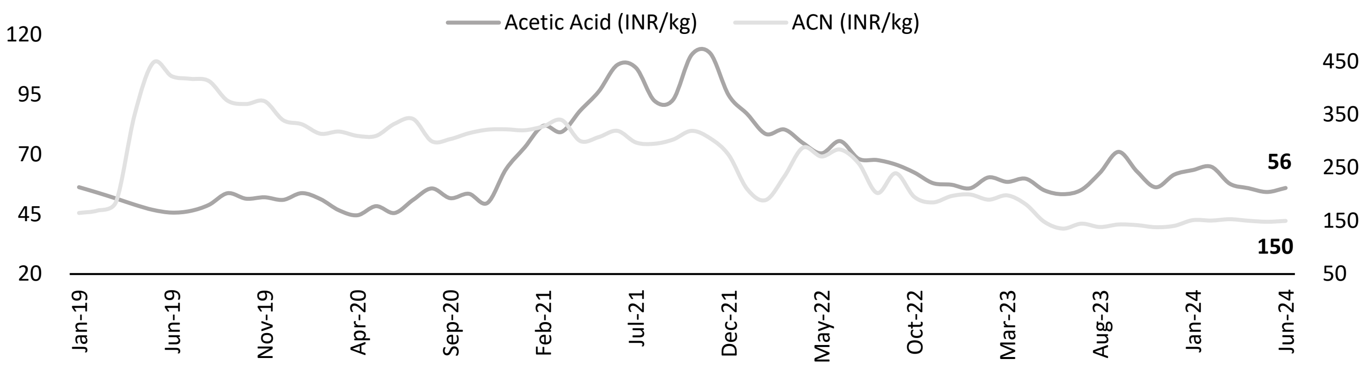
Source: Company, MOFSL

Exhibit 9: Only Chinese and Indian players produce ACN through the acetic acid globally



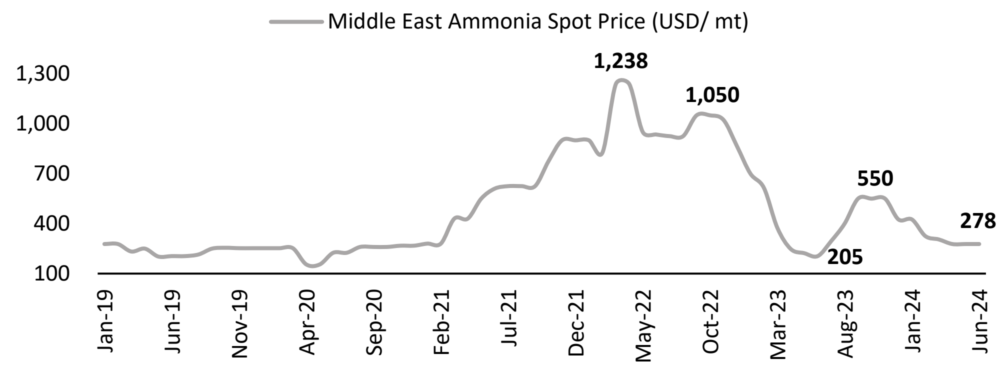
Source: INEOS Nitriles, MOFSL

Exhibit 10: ACN prices have stabilized while Acetic Acid prices have fallen 11% QoQ in 1QFY25 till date



Source: IndianPetroChem, MOFSL

Exhibit 11: Ammonia prices have stabilized as of now



Source: Bloomberg, MOFSL

Exhibit 12: Peer comparison for our coverage universe

Spec Chem	Reco	TP (INR)	EPS (INR)			P/E (x)			P/BV (x)			EV/EBITDA (x)			ROE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Alkyl Amines	Neutral	2,010	29.1	39.4	57.4	68.9	50.9	34.9	8.1	7.3	6.4	40.8	31.7	22.7	12.2	15.1	19.6
Atul	Neutral	5,670	103.4	131.0	162.0	60.2	47.5	38.4	3.6	3.4	3.1	29.3	25.3	21.7	6.2	7.3	8.4
Clean Science	Neutral	1,375	23.0	27.9	34.4	60.7	49.9	40.6	12.3	10.1	8.3	44.6	38.7	31.1	22.1	22.3	22.5
Deepak Nitrite	Neutral	2,320	55.1	69.2	77.3	45.0	35.9	32.1	7.1	6.0	5.2	29.9	23.5	20.8	16.9	18.1	17.3
Fine Organic	Sell	3,785	120.0	109.9	108.1	39.3	43.0	43.7	7.8	6.7	5.9	28.1	29.8	29.6	21.8	16.7	14.3
Galaxy Surfact.	Buy	3,450	85.0	98.5	115.0	31.2	27.0	23.1	4.3	3.9	3.4	20.1	16.8	14.4	14.8	15.1	15.7
Navin Fluorine	Neutral	3,110	46.1	62.7	88.9	78.8	58.0	40.9	7.6	6.9	6.1	48.5	36.4	27.2	10.0	12.4	15.9
NOCIL	Neutral	260	7.9	10.2	13.0	35.5	27.4	21.5	2.8	2.6	2.4	24.0	17.5	14.0	8.1	9.8	11.7
P I Industries	Buy	4,280	110.6	111.8	131.9	33.0	32.6	27.7	6.3	5.4	4.6	25.6	21.5	18.1	21.1	17.9	17.9
SRF	Neutral	2,140	47.5	56.5	73.0	50.9	42.7	33.1	6.3	5.7	5.0	28.6	23.6	19.3	13.0	13.9	16.0
Tata Chemicals	Neutral	980	36.1	34.9	50.4	30.6	31.7	21.9	1.3	1.2	1.2	11.4	11.5	9.4	4.4	4.0	5.5
Vinati Organics	Buy	2,080	31.2	42.3	52.0	61.5	45.3	36.9	8.1	7.1	6.2	42.0	31.2	25.7	13.8	16.7	17.9

Source: Company, MOFSL

Story in charts

Exhibit 13: Expect ~22% revenue CAGR over FY24-26...

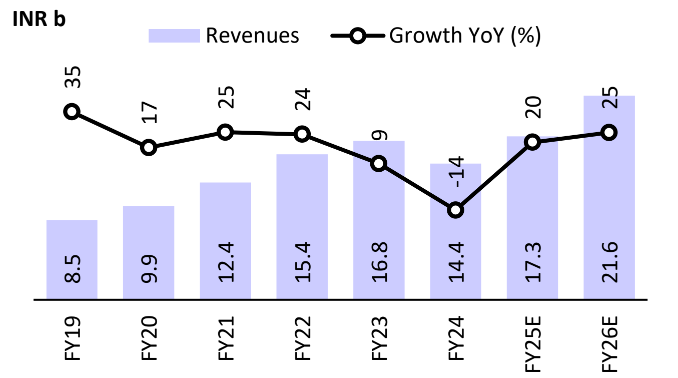


Exhibit 14: ...with revenue mix remaining constant (%)

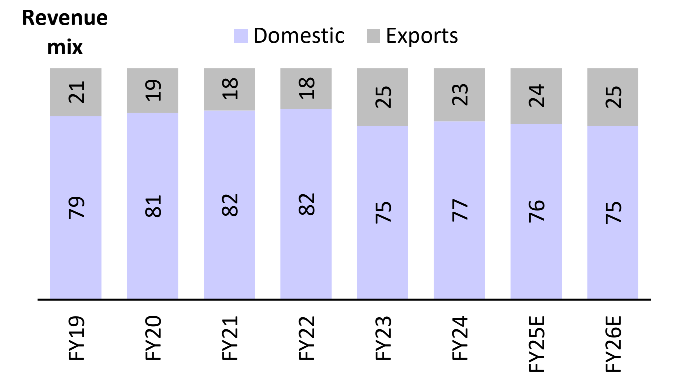


Exhibit 15: Expect EBITDA margin to improve to ~21%...

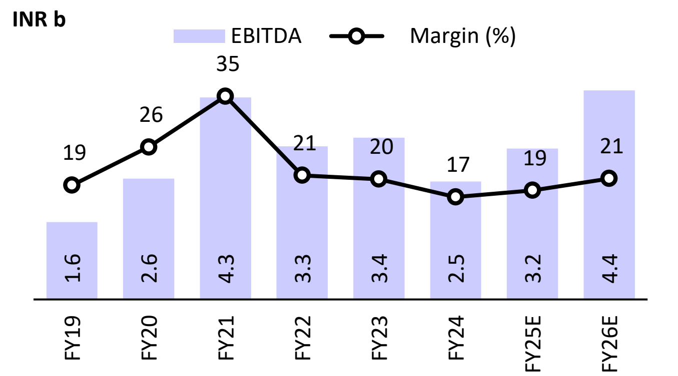


Exhibit 16: ...with PAT margin expanding by FY24

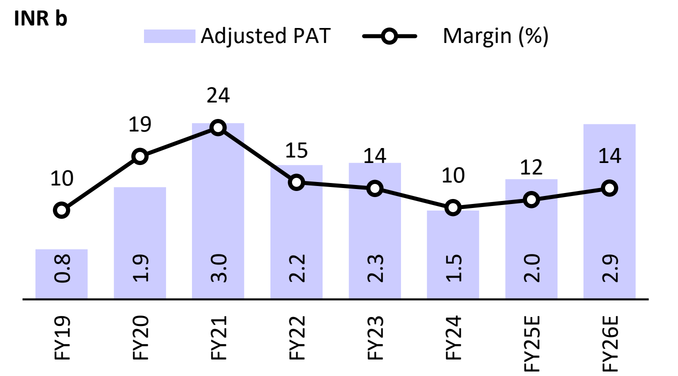


Exhibit 17: One-year forward P/E ratio trades at 45.8x...

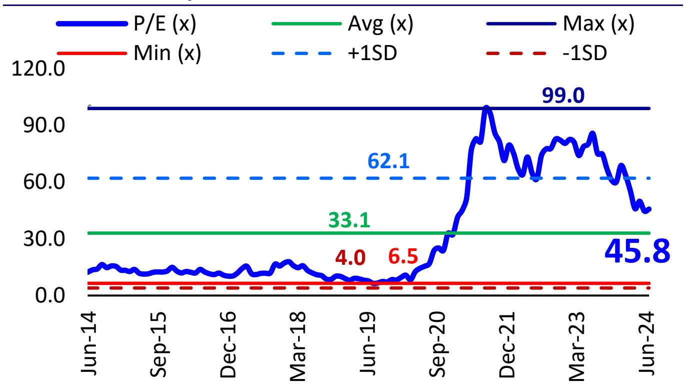


Exhibit 18: ...with return ratios increasing to 19-20%

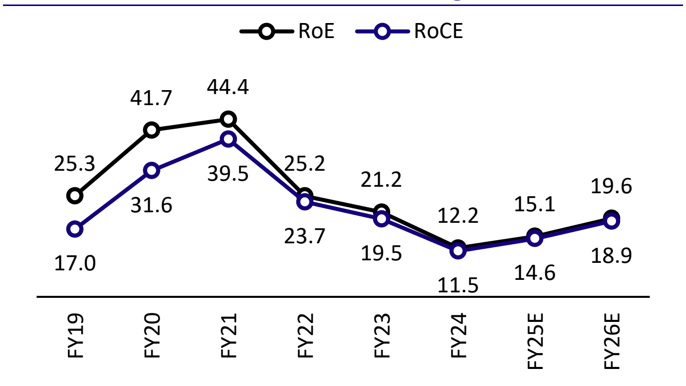
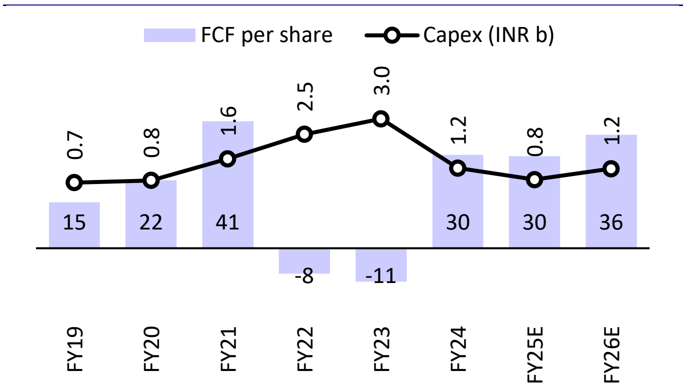
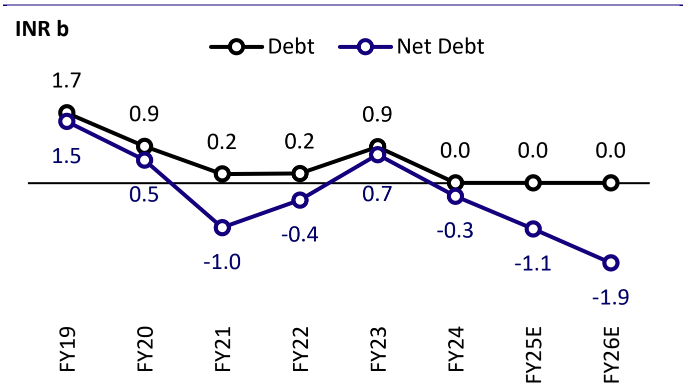


Exhibit 19: Expect strong FCF generation over FY25-26



Source: Company, MOFSL

Exhibit 20: Expect AACL to remain net cash



Source: Company, MOFSL

Financials and valuations

Standalone Income Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Total Income from Operations	**8,464**	**9,929**	**12,424**	**15,420**	**16,831**	**14,406**	**17,287**	**21,609**
Change (%)	*35.5*	*17.3*	*25.1*	*24.1*	*9.1*	*-14.4*	*20.0*	*25.0*
Gross Margins (%)	*45.5*	*51.2*	*57.9*	*45.8*	*48.9*	*46.7*	*46.4*	*46.0*
EBITDA	**1,644**	**2,570**	**4,291**	**3,252**	**3,439**	**2,507**	**3,203**	**4,441**
Margin (%)	*19.4*	*25.9*	*34.5*	*21.1*	*20.4*	*17.4*	*18.5*	*20.6*
Depreciation	233	269	291	348	452	589	617	628
EBIT	**1,410**	**2,301**	**4,001**	**2,904**	**2,987**	**1,918**	**2,586**	**3,813**
Int. and Finance Charges	148	103	63	33	33	44	48	51
Other Income	39	70	70	150	132	151	157	163
PBT bef. EO Exp.	**1,302**	**2,269**	**4,007**	**3,021**	**3,086**	**2,025**	**2,695**	**3,925**
EO Items	0	328	0	0	0	0	0	0
PBT after EO Exp.	**1,302**	**2,597**	**4,007**	**3,021**	**3,086**	**2,025**	**2,695**	**3,925**
Total Tax	464	444	1,054	772	799	536	678	988
Tax Rate (%)	*35.7*	*17.1*	*26.3*	*25.6*	*25.9*	*26.5*	*25.2*	*25.2*
Reported PAT	**837**	**2,153**	**2,953**	**2,249**	**2,287**	**1,489**	**2,017**	**2,937**
Adjusted PAT	**837**	**1,881**	**2,953**	**2,249**	**2,287**	**1,489**	**2,017**	**2,937**
Change (%)	*30.3*	*124.5*	*57.0*	*-23.9*	*1.7*	*-34.9*	*35.5*	*45.6*
Margin (%)	*9.9*	*18.9*	*23.8*	*14.6*	*13.6*	*10.3*	*11.7*	*13.6*

Standalone Balance Sheet								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Equity Share Capital	102	102	102	102	102	102	102	102
Total Reserves	3,548	5,264	7,822	9,796	11,587	12,569	13,893	15,821
Net Worth	**3,650**	**5,366**	**7,924**	**9,898**	**11,689**	**12,671**	**13,995**	**15,923**
Total Loans	1,653	866	216	227	855	6	6	6
Deferred Tax Liabilities	507	404	414	472	560	737	737	737
Capital Employed	**5,810**	**6,636**	**8,554**	**10,598**	**13,104**	**13,415**	**14,739**	**16,667**
Gross Block	4,280	4,971	5,315	7,663	9,013	13,307	14,107	15,307
Less: Accum. Deprn.	515	736	1,026	1,374	1,825	2,415	3,032	3,660
Net Fixed Assets	**3,764**	**4,235**	**4,288**	**6,290**	**7,187**	**10,892**	**11,075**	**11,647**
Capital WIP	432	449	1,376	1,426	3,525	356	356	356
Total Investments	**14**	**0**	**302**	**0**	**0**	**0**	**0**	**0**
Curr. Assets, Loans, and Adv.	**3,275**	**3,150**	**5,486**	**5,997**	**5,207**	**4,589**	**6,214**	**8,296**
Inventory	1,057	837	1,219	1,645	1,837	1,720	2,064	2,579
Account Receivables	1,526	1,642	2,280	2,767	2,584	2,217	2,661	3,326
Cash and Bank Balance	202	323	1,260	626	182	314	1,084	1,884
Cash	193	312	961	379	172	304	1,074	1,874
Bank Balance	8	10	299	247	10	10	10	10
Loans and Advances	490	349	727	959	604	338	406	507
Curr. Liability and Prov.	**1,676**	**1,198**	**2,899**	**3,116**	**2,815**	**2,422**	**2,906**	**3,633**
Account Payables	1,304	748	1,790	2,285	1,897	1,719	2,063	2,579
Other Current Liabilities	264	354	1,002	730	790	559	671	839
Provisions	107	97	107	101	128	144	172	215
Net Current Assets	**1,599**	**1,952**	**2,587**	**2,882**	**2,392**	**2,167**	**3,307**	**4,663**
Appl. of Funds	**5,810**	**6,635**	**8,554**	**10,598**	**13,104**	**13,415**	**14,739**	**16,667**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	**16.4**	**36.9**	**57.9**	**44.0**	**44.7**	**29.1**	**39.4**	**57.4**
EPS Growth (%)	*30.3*	*124.5*	*57.0*	*-24.0*	*1.6*	*-34.9*	*35.5*	*45.6*
Cash EPS	21.0	42.1	63.6	50.8	53.5	40.6	51.5	69.7
BV/Share	71.5	105.2	155.3	193.7	228.6	247.7	273.6	311.2
DPS	3.4	8.7	16.0	10.0	10.0	10.0	13.5	19.7
Payout (%)	20.6	20.6	27.7	22.7	22.4	34.4	34.4	34.4
Valuation (x)								
P/E ratio	129.2	57.5	36.6	48.2	47.4	72.9	53.8	36.9
Cash P/E ratio	101.0	50.3	33.3	41.7	39.6	52.2	41.2	30.4
P/BV ratio	29.6	20.2	13.7	10.9	9.3	8.6	7.7	6.8
EV/Sales ratio	13.0	11.0	8.6	7.0	6.5	7.5	6.2	4.9
EV/EBITDA ratio	66.7	42.3	25.0	33.2	31.7	43.1	33.5	24.0
Dividend Yield (%)	0.2	0.4	0.8	0.5	0.5	0.5	0.6	0.9
FCF per share	14.8	21.8	40.7	-8.1	-10.7	29.9	29.5	36.4
Return Ratios (%)								
RoE	25.3	41.7	44.4	25.2	21.2	12.2	15.1	19.6
RoCE	17.0	31.6	39.5	23.7	19.5	11.5	14.6	18.9
RoIC	17.9	34.6	51.4	30.5	24.7	12.7	14.9	20.6
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	2.5	2.9	2.9	2.5	1.6	1.6	1.9
Asset Turnover (x)	1.5	1.5	1.5	1.5	1.3	1.1	1.2	1.3
Inventory (Days)	46	31	36	39	40	44	44	44
Debtor (Days)	66	60	67	66	56	56	56	56
Creditor (Days)	56	27	53	54	41	44	44	44
Leverage Ratio (x)								
Current Ratio	2.0	2.6	1.9	1.9	1.8	1.9	2.1	2.3
Interest Coverage Ratio	9.5	22.4	63.2	88.5	89.9	43.6	54.1	74.8
Net Debt/Equity ratio	0.4	0.1	-0.1	0.0	0.1	0.0	-0.1	-0.1

Standalone Cash Flow Statement **(INR m)**

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	1,302	2,597	4,007	3,021	3,086	2,025	2,695	3,925
Depreciation	233	269	291	348	452	589	617	628
Interest Expenses	148	103	63	38	33	44	48	51
Others	51	-308	1	-48	55	34	0	0
Direct Taxes Paid	-356	-581	-1,012	-744	-714	-346	-678	-988
(Inc.)/Dec. in WC	64	-193	290	-569	-428	404	-371	-556
CF from Operations	**1,442**	**1,886**	**3,640**	**2,046**	**2,484**	**2,750**	**2,311**	**3,060**
(Inc.)/Dec. in FA	-689	-771	-1,561	-2,462	-3,030	-1,220	-800	-1,200
Free Cash Flow	**753**	**1,115**	**2,079**	**-415**	**-546**	**1,530**	**1,511**	**1,860**
Change in Investments	0	343	-587	369	237	-3	0	0
Others	21	22	21	36	22	9	0	0
CF from Investments	**-668**	**-407**	**-2,127**	**-2,057**	**-2,771**	**-1,215**	**-800**	**-1,200**
Issue of Shares	0	0	4	7	12	8	0	0
Inc./(Dec.) in Debt	-268	-797	-381	-228	616	-848	0	0
Interest Paid	-150	-107	-68	-40	-31	-44	-48	-51
Dividend Paid	-172	-443	-408	-306	-511	-511	-693	-1,009
Others	-13	-13	-11	-5	-6	-8	0	0
CF from Fin. Activity	**-603**	**-1,360**	**-864**	**-572**	**80**	**-1,404**	**-741**	**-1,060**
Inc./Dec. in Cash	**171**	**119**	**649**	**-582**	**-206**	**132**	**770**	**800**
Opening Balance	22	193	312	961	379	172	304	1,074
Closing Balance	**193**	**313**	**962**	**379**	**172**	**304**	**1,074**	**1,874**

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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